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The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

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Proposed Regime for Negotiated Cost Pension Plans (SK)

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FOREWORD

ACPM (THE ASSOCIATION OF CANADIAN PENSION MANAGEMENT)

ACPM (The Association of Canadian Pension Management) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

ACPM believes in the following principles as the basis for its policy development in support of an effective and sustainable Canadian retirement income system:

Diversification through Voluntary / Mandatory and Public / Private Options
Canada's retirement income system should be comprised of an appropriate mix of voluntary Third Pillar and mandatory First and Second Pillar components.

Third Pillar Coverage
Third Pillar retirement income plan coverage should be encouraged and play a meaningful ongoing role in Canada's retirement income system.

Adequacy and Security
The components of Canada's retirement income system should collectively enable Canadians to receive adequate and secure retirement incomes.

Affordability
The components of Canada's retirement income system should be affordable for both employers and employees.

Innovation in Plan Design
Canada's retirement income system should encourage and permit innovation in Third Pillar plan design.

Adaptability
Canada's retirement income system should be able to adapt to changing circumstances without the need for comprehensive legislative change.

Harmonization
Canada's pension legislation should be harmonized.

INTRODUCTION

We would like to thank the Saskatchewan, Financial and Consumer Affairs Authority ("FCAA") for taking the time to consider the issues and concerns of all the organizations that submitted responses to the original consultation paper, Proposed Regime for Negotiated Cost Pension Plans.

Before we provide our comments to the specific questions asked as per 9.1 of the Revised Consultation Paper we would like to identify one item regarding the calculation of the Going Concern Commuted Value ("GC CV").

The primary purpose of an NCPP is to pay monthly pension benefits to retired members of the plan. To enhance the likelihood of the plan being able to meet these monthly obligation over the long periods of time that pension plans operate in it is reasonable for plans to build-up/accumulate a margin (of assets in excess of liabilities) on the plan balance sheet. We agree with the position of the proposed regime that the build-up/accumulation of margin on the plan's balance sheet should come from positive plan experience and should not be "funded" by way of specific additional contributions to the plan.

Once margin has been accumulated, we would view this as a desirable result that provides some protection to plan members in ensuring pension payments are less affected from ongoing fluctuations in plan experience. However, it may be unclear whether such margins should form part of the amount that is paid out of an NCPP to members who terminate their membership in the plan and elect a lump sum settlement. We would expect some NCPPs would take the position that margin (or a portion of the margin) should be part of the lump sum settlement benefit while others may take the opposite view.

In our response below, we have tried to present an actuarial analysis for both sides of this discussion. Accordingly, we would recommend the FCAA consider including a minimum standard for NCPP lump sum settlements where the basis used to determine the Funded Ratio and the member's GC CV entitlement are in sync with each other.

In addition to the above, we can show that, where a plan has an unfunded liability and has adopted a PfAD to be added to its liabilities on its balance sheet, a member could receive less than the best estimate going concern commuted value multiplied by the best estimate going concern funded ratio.

The following example will illustrate the situation:

- Assume an NCPP has the following best estimate valuation results:

  a. Market value of assets: $90,000,000
  b. Best estimate liabilities: $100,000,000
  c. Funded Ratio: 90.00%

- Assume that the plan includes a PfAD of $20,000,000 in the liabilities on the balance sheet, so the actual funding valuation will show:

  d. Market value of assets: $90,000,000
  e. Liabilities (with margin): $120,000,000 ($100,000,000 as above with PfAD)
  f. Funded Ratio: 75.00%

- Now assume we have a plan member who is terminating membership and desires to receive a lump sum settlement (in lieu of an immediate or deferred pension)
- The best estimate GC Commuted Value for the member is assumed to be $100,000
- Since the plan has an unfunded liability, we apply the plan's funded ratio to the commuted value to determine the actual amount to pay to the terminating member.
- If we apply the 90.0% funded ratio to the best estimate GC CV:
  - **$90,000** lump sum settlement ($100,000 x 90.00%)
- If we apply the 75.0% funded ratio to the best estimate GC CV:
  - **$75,000** lump sum settlement ($100,000 x 75.00%)

We are suggesting that the best estimate going concern commuted value be multiplied by the best estimate funded ratio as the minimum payment to a terminating member that elects to settle their benefit entitlement with a lump sum payment. Use the funded ratio without any PfAD in the liability. In our example above, use the 90.0%. Note that if the PfAD is applied to any GC CV before payout then the payout of $90,000 will also be achieved ($100,000 * 1.2 * 0.75).

Here is another way to look at this issue:

In the sample plan below, the only difference is the actuarial assumptions used in determining the Going Concern Actuarial Liabilities. As an example assume the assumptions are:

- Best Estimate (BE): 6% discount rate
- Best Estimate plus Margin (BE+Margin): 5% discount rate

All other assumptions are the same, the underlying data is the same. All that varies is the degree of conservatism in the discount rate. The actual future experience of the plan, although unknowable at this time, will be the same under both scenarios.

If the member's commuted value (lump sum for benefit settlement) is determined on the same going concern actuarial assumptions used to determine the funded ratio, then using the funded ratio, not capped at 1.0, adjusts for difference in the discount rate in the actuarial assumptions and produces a fair value to the member. See the table below for a simplified example of how the cap of 1.0 would impact a plan member's lump sum entitlement.

	Funded Ratio – Not Capped at 1.0	**Best Estimate**	**Best Estimate + Margin**
1.	Market Value Assets	$90,000,000	$90,000,000
2.	GC Actuarial Liabilities	$80,000,000	$100,000,000
3.	Funded Ratio (FR)	1.125	0.900
4.	Member CV $ – before FR adjustment	$80,000	$100,000
5.	**Amount Paid to Member to Settle Benefit**	**$90,000**	**$90,000**

For comparison purposes, the following table illustrates the effect on the plan member if the funded ratio is capped at 1.0 when determining the member's entitlement.

	Funded Ratio – Capped at 1.0	**Best Estimate**	**Best Estimate + Margin**
1.	Market Value Assets	$90,000,000	$90,000,000
2.	GC Actuarial Liabilities	$80,000,000	$100,000,000
3.	Funded Ratio (FR)	1.000	0.900
4.	Member CV $ – before FR adjustment	$80,000	$100,000
5.	**Amount Paid to Member to Settle Benefit**	**$80,000**	**$90,000**

Thus use of the actual funded ratio (ie. 1.125 in our example), not capped at 1.0, adjusts/normalizes for the actuarial assumptions used. If the Funded Ratio is capped at 1.0, it may encourage a shift to more aggressive assumptions (and not just in the discount rate).

Section 9.1: Consultation Questions

Please find below the responses to the consultation questions found in the revised regime for NCPP.

1. **All of the NCPP respondents to the original paper wanted the ability to calculate CVs using the GC CV methodology retrospectively. More than half of those respondents wanted the GC CV methodology to be mandatory for NCPPs and the CIA CV to be removed all together. We are interested in better understanding the reasons why those respondents would prefer that GC CV's be mandatory and not an optional plan design feature for NCPPs.**

   We believe that the request to have the GC CV methodology as mandatory would allow for an easier implementation of the going concern commuted value for certain plans (since they can point to a change in legislation as being a mandatory change to their plans). This may also be a very difficult decision for Trustees to implement if it is optional. A retroactive change will decrease the payment for many older, long service members and thus, there may be pressure on the Trustees (from a very vocal portion of the membership population) to retain this feature. Retaining the old CIA basis will be harmful to newer, younger members for whom a portion of their contributions will be used to subsidize the past benefits paid out on a CIA basis. The younger plan members are typically less vocal and would put less pressure on Trustees making the decision. In short, a mandatory legislative change would remove any pressure on the Trustees from a potentially upset and vocal membership group.

2. **Are you aware of any stakeholders who are opposed to the retrospective application of the GC CVs?**

   We are not aware of any stakeholders who are opposed to the retrospective application of the GC CVs.

3. **In addition, we are interested in knowing how the NCPP Administrators intend to address the implementation of the retrospective application of the GC CV. What would be your transition plan? We note that members and former members not yet in receipt of a pension may be interested in commuting their accrued benefits using the CIA CV methodology prior to the implementation of GC CV. Do you have concerns with this and/or plans to manage this?**

   To be clear, this response is from ACPM and ACPM is not an Administrator.

Nevertheless, we will provide some comments for your consideration.

We agree that this has the potential to be a challenging issue. Our proposed transition plan would allow plans to choose a future date to implement the retrospective going concern commuted value. This would allow plans to provide appropriate communication to plan members and would give plan members an appropriate period of time to adjust to the new (likely lower) amount that they may receive upon termination of membership. Such a change may be a major concern to certain members who are planning on terminating membership. As such, each plan will need to carefully determine the appropriate period of time to give plan members to adjust to the change in the termination values. It is also understandable, that some members may take advantage of commuting their accrued benefits based on the current CIA CV standard prior to the implementation of the new GC CV. However, over the long term, this short-term experience should not overly burden the long term financial health of these plans.

In addition, it might also be helpful for plan members if they were provided with the implications to plan members of an immediate/deferred monthly pension from the plan and implications of settling their benefit entitlement via lump sum transfer. Many plan members do not have a working understanding of the risk management aspects of this decision. The point here is to re-focus the plan member on a pension from the plan versus lump sum transfer. In contrast to focusing on two different basis for determining lump sum values.

Thank you for the opportunity to respond to this consultation. Please contact us if we can be of any further assistance.